

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4614-02
Bill No.: HB 1268
Subject: Taxation and Revenue - Income
Type: Original
Date: January 27, 2014

Bill Summary: This proposal would change the individual income tax rate schedules to adjust for inflation.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
General Revenue	\$0	(\$12,852,000)	(\$26,000,000)
Total Estimated Net Effect on General Revenue Fund	\$0	(\$12,852,000)	(\$26,000,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Total Estimated Net Effect on FTE	0	0	0

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Section 143.011 RSMo. - Individual Income Tax Rates Indexed for Inflation

Officials from the **Office of the Secretary of State (SOS)** assume many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the Secretary of State's Office for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Officials from the **Joint Committee on Administrative Rules** assume that this proposal would not have a fiscal impact to their organization in excess of existing resources.

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assume this proposal would not result in any additional costs or savings to their organization.

BAP officials assume this proposal would adjust the individual income tax brackets based on the increase in the cost of living. BAP officials assume this means that, instead of \$1,000 increments, these increments would be adjusted based on the rate of inflation. For example, if inflation is 1%, the brackets would be based on \$1,010 increments.

BAP officials stated they had reviewed the annual rates of inflation as reported on the federal Department of Commerce, Bureau of Labor Standards (BLS) website and noted the highest annual rate since 1984 was 5.4%, the lowest rate was (-0.4) percent.

Applying these inflation rates 2011 data, BAP officials calculated the impact to Total State Revenues as a \$28.6 million reduction at the 5.4% inflation rate and a \$5.2 million increase at the (-0.4%) inflation rate.

ASSUMPTION (continued)

BAP officials noted the proposal provides no guidance as to how the Department of Revenue (DOR) is to determine the annual rate of inflation, nor does it provide any guidance as to the timing when DOR is supposed to update the tax tables. DOR may be able to provide additional information regarding the administrative difficulties this would cause.

Officials from the **Department of Revenue (DOR)** assume this proposal would adjust the income tax brackets based on the increase in the cost of living as measured by the Consumer Price Index for All Urban Consumers for the United States.

This proposal would require individual income tax rate brackets to be adjusted by the cost of living increase as measure by the Consumer Price Index, beginning with the 2015 tax year. The Department assumes the current \$1,000 increments would be adjusted based on the cost of living increase. For example, if the cost of living increase is 1 percent, the brackets would be based on \$1,010 increments. Based on information reported on the Bureau of Labor Statistics website, the highest rate since 1984 was 5.4% and the lowest rate was -0.4 percent. The -0.4 percent occurred in 2009 and was the only negative rate during this period.

Fiscal impact

Using 2011 data, DOR officials estimated Total State Revenue could be reduced by as much as \$28.6 million if the tax rate table changes are calculated at the 5.4 percent inflation rate, or increased by \$5.2 million if the tax rate table changes are calculated at the -0.4 percent inflation rate.

Administrative impact

DOR officials assume Withholding Tax would be required to revise the tax tables and create a formula for the new tax rates, and OA - ITSD (DOR) would have programming costs due to the rate table revision and formula changes.

DOR officials did not include an estimate of the administrative cost to implement this proposal, and **Oversight** assumes those costs are minimal and could be absorbed with existing resources.

ASSUMPTION (continued)

IT impact

DOR officials assumed that implementing this proposal would have an IT cost of \$18,346 based on 672 hours of programming to make changes to DOR systems.

Oversight assumes OA-ITSD (DOR) is provided with core funding to handle a certain amount of activity each year. Oversight assumes OA-ITSD (DOR) could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, OA-ITSD (DOR) could request funding through the appropriation process.

Officials from the **University of Missouri - Economic and Policy Analysis Research Center (EPARC)** assume this proposal would, if enacted, change the individual income tax rate brackets to adjust for inflation.

Beginning with 2015, the brackets would be adjusted annually for the increase in the cost of living as measured by the Consumer Price Index for All Urban Consumers for the United States. According to the Bureau of Labor Statistics, the average increase in the CPI for All Urban Consumers for the United States over the last three years is approximately 2.3%.

EPARC officials provided a simulation based on that rate of increase in the tax rate brackets, and noted the simulation results indicated 2015 taxes would be reduced from the 2012 baseline amount of \$5,109.439 million to \$5,096.587 million, a reduction of \$12.852 million.

Oversight notes the reduction in 2015 taxes would be effective with the first tax returns filed for 2015 in January, 2016 (FY 2016), and assumes a similar reduction would be expected for 2016 taxes paid in 2017 (FY 2017). Oversight will calculate an estimate of the impact on 2016 taxes (FY 2017) as $(\$12,852,000 \times 102.3\%) = \$13,147,596$, rounded to \$13,148,000 and assume the impact for 2016 to be $(\$12,852,000 + \$13,148,000) = \$26,000,000$.

Oversight recognizes that taxpayers may adjust their estimated tax payments of withholding taxes but for fiscal note purposes will indicate the full impact when the tax returns are filed.

<u>FISCAL IMPACT - State Government</u>	FY 2015 (10 Mo.)	FY 2016	FY 2017
GENERAL REVENUE FUND			
<u>Revenue reduction - DOR</u>			
Tax rate tables adjusted for inflation			
Section 143.011	<u>\$0</u>	<u>(\$12,852,000)</u>	<u>(\$26,000,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0</u>	<u>(\$12,852,000)</u>	<u>(\$26,000,000)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2015 (10 Mo.)	FY 2016	FY 2017
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

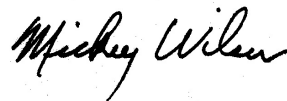
FISCAL DESCRIPTION

The proposed legislation would change state income tax brackets to adjust for inflation.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the Secretary of State
Joint Committee on Administrative Rules
Office of Administration
 Division of Budget and Planning
Department of Revenue
University of Missouri
 Economic and Policy Analysis Research Center



Mickey Wilson, CPA
Director
January 27, 2014

Ross Strobe
Assistant Director
January 27, 2014